

Partnership Returns

Income Statement and Industry Statistics for 1978

By William Mudd*

The first detailed statistics from the 1.2 million returns of active partnerships for Income Year 1978 indicate an increase in partnership activity as compared to 1977. For example, the number of partnerships grew by more than 80,000 (or 7 percent) from 1977 to 1978. Business receipts showed an even larger rise, over 21 percent, from \$171 billion to \$208 billion.

Partnership activity has been expanding at a quickening pace over the last several years, as seen below.

Income year	Partnerships (thousands)	Business receipts (millions)
1978.....	1,234	\$207,731
1977.....	1,153	171,424
1976.....	1,096	152,769
1975.....	1,073	142,506
1974.....	1,062	133,923

The number of returns filed by active partnerships grew at the rate of 1 percent between 1974 and 1975, 2 percent between 1975 and 1976, and 5 percent between 1976 and 1977; the 1977-78 growth rate was 7 percent (as already stated). For business receipts the rate of increase was 6 percent for 1974-75, 7 percent for 1975-76, 12 percent for 1976-77, and 21 percent for 1977-78.

Partnership Income and Profit

In addition to \$208 billion in business receipts, partnerships received about \$11 billion in investment income (other than capital gains, which amounted to nearly \$4 billion more). The largest single source of investment income was interest, which amounted to over \$4 billion.

Deductible partnership expenses and losses totaled about \$205 billion in 1978. Cost of sales and operations amounted to \$87 billion. Payroll came to \$22 billion (including \$6 billion counted as part of cost of sales and operations). Other large expenses included interest (\$16 billion) and depreciation (\$15 billion).

Sixty-two percent of all partnerships had a net income (profit) on current operations (not counting capital gains). The total profit made in 1978 was \$34 billion. The other 38 percent of the partnerships had a total deficit of \$19 billion.

There has been an increase in both net income and deficits in most recent years, as the following table shows.

Income year	Net income (millions)	Deficit (millions)
1978....	\$33,689	\$19,243
1977....	28,930	15,665
1976....	24,920	14,497
1975....	22,432	14,694
1974....	21,595	12,730

Industrial Activity

Of the eight industrial divisions, the largest was finance, insurance, and real estate, which accounted for nearly \$56 billion in business receipts. Forty-two percent of all partnerships (516,000) were in this division. The industrial division with the second largest number of partnerships (241,000) was services, while the division with the second largest amount of business receipts (\$53 billion) was wholesale and retail trade.

Industrial division	Partnerships (thousands)	Business receipts (millions)
Finance, insurance, and real estate	516	\$55,697
Services	241	43,452
Wholesale and retail trade	200	52,920
Agriculture, forestry, and fishing	127	18,045
Construction	78	16,053
Manufacturing	28	10,514
Mining	24	6,563
Transportation and utilities	20	4,486

In all divisions except mining, net income exceeded deficits (as Figure A shows). The largest amount of net income was earned by the services division, \$12.4 billion or 37 percent of the total for all industries. The net income of the finance, insurance, and real estate industries was also quite large, \$9.7 billion, but was nearly balanced out by deficits of \$9.6 billion, the largest for any division.

Real Estate

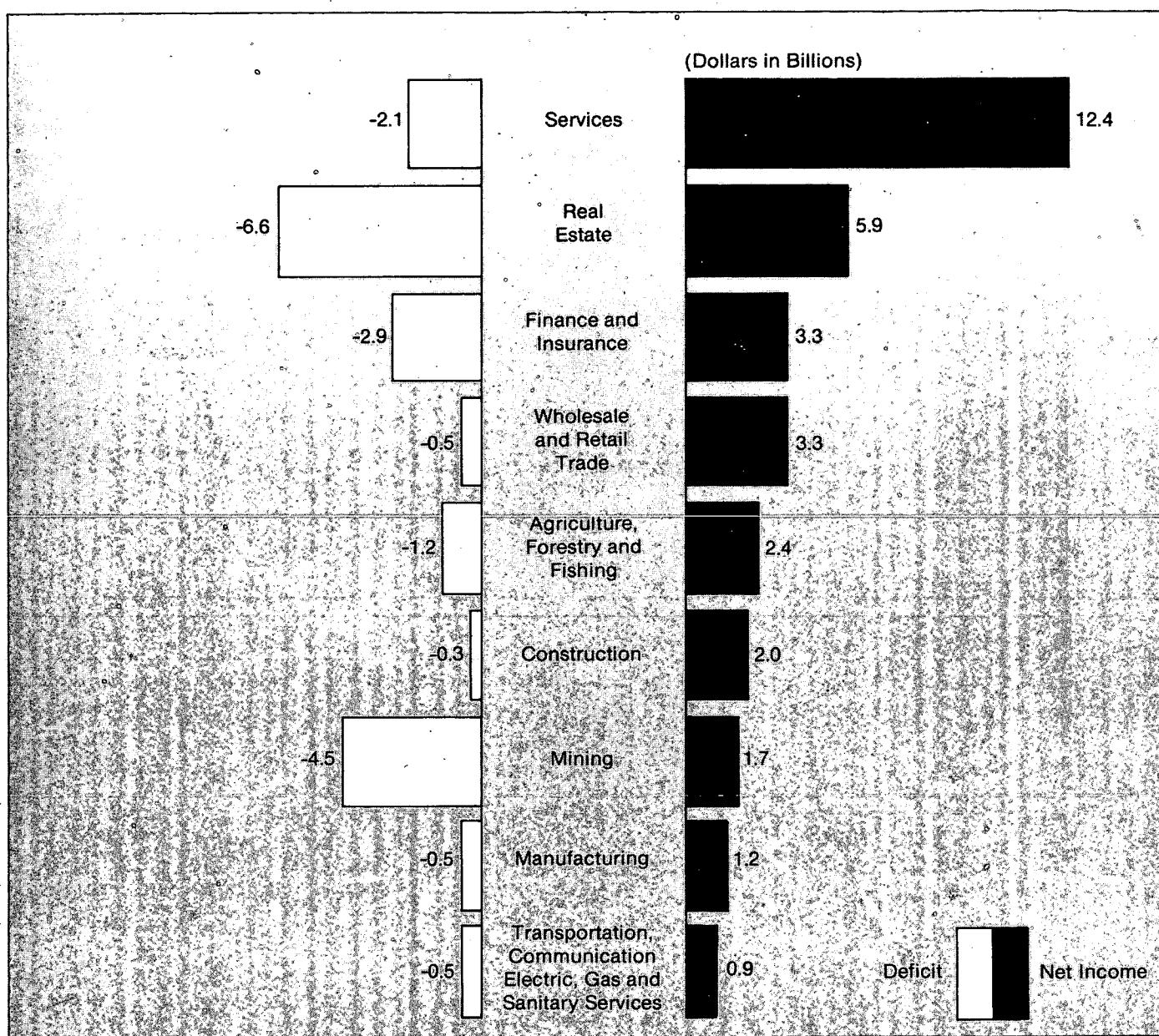
For partnerships, the real estate industry was dominated by a single activity, the operation and leasing of buildings. Indeed, this activity accounted for one-fourth of all partnerships, 321,000, and one-seventh of all business receipts, \$30 billion.

As measured by net income from current business operations, the building operation and leasing industry appears on the whole unprofitable. However, by broadening the measure of profit to include (for example) capital gains as well as net income from current operations, a different picture emerges. As the figures below indicate, capital gains more than compensated for current operating deficits.

Income item	Amount (millions)
Total	\$ 215
Net income	3,951
Deficit	-5,807
Capital gains (net) ..	2,071

In addition, building operators could increase their deductions by claiming such items as prepaid

Figure A

Partnership Returns: Net Income and Deficit by Industrial Classification, 1978

interest and accelerated depreciation.... To the extent they did so, the net income figures shown above may understate the actual profit of these businesses. Total interest and depreciation claimed by building operators were \$10 billion and \$7 billion, respectively.

Wholesale and Retail Trade

Trade, the largest sole proprietorship industrial division, was the second largest partnership division as measured by the amount of business receipts. Partnership retail activity was much larger than wholesale. There were nearly six times as many retailers as wholesalers (170,000 compared to 29,000) and retailers had double the business receipts of wholesalers (\$35.0 billion versus \$17.8 billion).

The largest retail trade industries (shown below) were eating places, grocery stores, and gasoline service stations. While eating places were the most numerous type of business, grocery stores had the largest amount of business receipts among retailers.

Minor industry	Partnerships (thousands)	Business receipts (millions)
Eating places ...	28	\$5,141
Grocery stores ..	15	5,600
Gasoline service stations	12	4,078

Basic Table Information

Table 1 presents statistics on the complete income statement for all partnerships and partnerships with net income, shown for the eight major industrial divisions as well as for selected industries within those divisions. Following this table is information on the sample used for the statistics, on sampling and nonsampling error, and on law changes.

Additional statistics, as well as definitions of terms and a comprehensive description of data limitations, will be available in the complete report, Statistics of Income--1978, Partnership Returns.

DATA SOURCES AND LIMITATIONS

These statistics are based on a systematic sample of unaudited partnership returns, Forms 1065. The sample was stratified based on industry, receipts, income, and assets and selected at rates which ranged from 0.6 percent to 100 percent. There were 47,076 returns in the 1978 sample estimating a total population of 1,310,107. The corresponding counts for 1977 were 43,147 and 1,214,994.

Because they are based on a sample, estimates are subject to sampling error. The return data are also subject to nonsampling error due to taxpayer reporting variations and to discrepancies introduced in statistical processing.

Coefficient of Variation

The upper limits of the coefficient of variation shown below for 1978 (for frequency estimates only) are intended as a general indication of the reliability of the data.

<u>Number of partnerships</u>	<u>Coefficient of variation</u>
640	50%
1,800	30
4,000	20
16,000	10
64,000	5
400,000	2

Additional measures of the coefficient of variation for specific industries and for the various data items will be presented separately in the forthcoming Statistics of Income report for 1978. The computed coefficients of variation of estimates already

published in the 1977 Statistics of Income report can be used to approximate the reliability of similar 1978 estimates.

Nonsampling Error

Nonsampling error was controlled during statistical processing by a variety of methods. Among them was a systematic verification at the field processing location of the manual data editing and industry coding. As a further check on the quality of the editing and industry coding, small subsamples selected after field verification were reprocessed in the National Office. Key entry of the data at the processing location was also subjected to 100 percent verification.

Prior to tabulation, numerous computer tests were applied to each return record to check for inconsistencies. Lastly, prior to publication all statistics and tables were reviewed for accuracy and reasonableness in light of provisions of the tax laws, business reporting variations and limitations, economic conditions, and comparability with other statistical series.

Definitions and Law Changes

Definition of the data items presented in the tables are, in general, the same as those presented in Statistics of Income--1977, Partnership Returns.

There was only one major law change affecting the comparability with statistics for prior years. For 1978, the FUTA (Federal Unemployment Tax Act) tax of 3.4 percent was imposed on the first \$6,000 of wages paid to each employee during the year. In 1977, the tax had been imposed on only the first \$4,200. Since FUTA taxes paid were deductible by the partnerships, the effect of this change in the law would be to increase the total partnership deduction for taxes paid.